

SECTION VI - COST APPORTIONMENT TABLES

OVERVIEW

The Companies' cost apportionment tables contain the methods and procedures for allocating common investment and expense costs to regulated and nonregulated activities. The cost apportionment tables and a summary of tables' development are included in this section.

With respect to the application of the general allocator, this cost apportionment method requires special consideration since it is associated with expenses that are general in nature and can neither be directly assigned nor attributed to regulated or nonregulated operations. The Companies' CAM only uses the general allocator wherever costs can not be directly assigned or otherwise attributed, either directly or indirectly. The use of the general allocator is justified for certain types of expenses, such as accounting and finance, research and development, and external relations. This justification is based on two distinct premises. First, by definition, the expenses that the general allocator is applied to are unattributable. These expenses have no other rational cost apportionment method available for cost allocation purposes. Second, the Companies' accounting systems do not provide a practicable means to capture the information sufficient to support the development of a more cost causative apportionment.

UNIFORMITY OF ACCOUNTS

In order to obtain greater uniformity in LEC cost allocator practices, the FCC issued minimum cost pool requirements and specific allocation procedures for Part 32 accounts which contain large amounts of nonregulated costs.

On July 1, 1993, the FCC issued Memorandum and Opinion Order, Implementation of Further Cost Allocation Uniformity AAD 92-42. This order directs LECs to revise their CAMs to the extent necessary to distinguish properly among "direct assignment," "direct attribution," and "indirect attribution" and to implement uniform cost pools and allocation procedures for ten accounts:

- 2111-Land
- 2112-Motor Vehicles
- 2121-Buildings
- 2311-Station Apparatus
- 2341-Large Private Branch Exchanges
- 6112-Motor Vehicle Expense
- 6121-Land and Building Expense
- 6311-Station Apparatus Expense
- 6341-Large Private Branch Exchange Expense
- 6362-Other Terminal Equipment Expense.

COST APPORTIONMENT TABLES DEVELOPMENT

The cost apportionment tables present the following information for each applicable USOA Part 32 Account:

- USOA Part 32 Accounts Account number and brief description
- Cost Pool Name. Cost pool(s) into which the costs of the account are assigned or apportioned
- Cost Pool Identification. Method for apportioning the account into the defined cost pools
- Cost Pool Apportionment Method Method of apportioning cost pools between regulated services and nonregulated activities
- Comments Added as appropriate to explain costing methodology

Following is a brief discussion on each section of the Cost Apportionment Tables

COST POOLS

A cost pool represents a homogeneous group of costs within the USOA Part 32 account structure. A cost pool allows further subdivision of an account as necessary to permit analysis based on cost causation.

Direct Cost Pool or Directly Assigned represents revenues, expenses, and investments which can be identified to have been incurred exclusively for regulated services or nonregulated activities.

Directly Attributed represents common costs such as revenues, expenses, and investments which are allocated between regulated and nonregulated activities based on direct measures of cost-causation or direct analysis of the origin of the costs themselves.

All Other costs are apportioned using some method of indirect measures of cost-causation, or general allocation where no causal relationship exists.

COST POOL IDENTIFICATION

This description of the identification section of the cost apportionment tables presents the basis by which an account is split into cost pool categories. All investment is allocated to cost pools based on an analysis of the costs comprising each subaccount. All other cost pools are populated by means of Accounting Codes. Accounting Codes include:

- Accounts
- Subaccounts
- Job Function Codes (JFCs)
- Field Reporting Codes (FRCs)
- Special Purpose Function Codes (SPFCs)
- Cost Function Codes (CFCs)
- Expenditure Type Codes (EXTCs)
- Responsibility Codes (RCs)
- Continuing Property Records (CPR)
- Activity Codes
- Environment Codes (ECs)
- Keep Cost Orders (KCOs)
- Nonregulated Product Identification Codes (NPICs) (which are a subset of KCOs)
- Equipment Category Number (ECN)
- Separations Suffix (SS)

- Regulatory Environment Codes
- **Project Numbers**

Utilization of a particular Accounting Code depends upon the type of expenditure being captured. The descriptions below outline the basis for the cost assignments included in the cost apportionment tables.

Based on Description of Accounting Code(s)

An analysis of Accounting Codes is used to identify selected cost pools. Accounting Codes are used in operations to report activities for which time and expenses are incurred. Separate Accounting Codes are used with investment accounts to record the capitalized investments of an account.

Accounting Codes associated with operations are assigned to specific work activities and are reported by employees using positive time reporting procedures.

Accounting Codes associated with investment accounts are used to identify unique classifications of plant within an account. An example would be investment assigned to Embedded Investment in Individual Items of Small Value which is identified within an account by separate accounting codes.

Accounting codes are pre-assigned to all employees based on an analysis of their normal work activities. When these employees work on other activities, their work is reported through exception time reporting procedures.

COST POOL IDENTIFICATION (cont.)

Selected cost pools in the following accounts use the description of accounting codes as a basis for pool assignment:

1220	2411	6114	6421	6613
1410	2422	6121	6422	6622
2003	2423	6122	6423	6623
2112	2441	6123	6441	6720
2114	2681	6124	6512	7100
2122	2682	6211	6531	7240
2123	2690	6212	6532	7300
2124	3100	6220	6533	7500
2211	4100	6231	6534	
2212	4300	6232	6535	
2220	4340	6311	6540	
2231	5300	6341	6561	
2232	6112	6362	6564	
2311			6611	
2341				

Analysis of Building Use

The Companies maintain a floor space inventory file of all of their buildings. This inventory associates floor space with functions by building that can be used to separate building space into functional categories. These categories include: Central Office, Distribution Services, Network Operations, Customer Operations, and Corporate Operations floor space, and leased or rented floor space.

Once the actual floor space has been derived for each of the Building cost pools listed above, a ratio of that cost pool's floor space to total building floor space in a jurisdiction is developed. These ratios are applied to the total building investment in a jurisdiction to determine the level of building investment for that cost pool.

Thus a building by building analysis is performed and the ratios developed by this analysis are applied to each jurisdiction's total building investment within the Companies. This study is performed at least annually.

The following account uses analysis of building use as a basis for assigning costs to pools:

2121

Analysis of Motor Vehicle Records

The Companies maintain an inventory file of all their motor vehicles. This inventory associates motor vehicle costs with motor vehicle numbers and function codes. The motor vehicle numbers have a unique identification number that is used to populate the Distribution Services-Construction Sub-pool. The remaining pools, i.e., the Corporate Operations, Distribution Services-Installation and Maintenance, Central

COST POOL IDENTIFICATION (cont.)

Office, Network Operations, Customer Operations and Motor Pools, are populated by matching the function code on the motor vehicle inventory file with the related pool category. This study is performed at least annually.

Selected cost pools in Accounts 2112, Motor Vehicles, use this basis for assigning costs.

Lease Study

This capital lease study is performed at least annually by obtaining the continuing property record report which lists all capital leases and their amounts within a jurisdiction by lease category. These lease categories are then used to populate the associated cost pools in Account 2681, Capital Leases.

Leasehold Improvement Study

This leasehold improvement study is conducted at least annually by obtaining the continuing property record report which lists all leasehold improvements and their amounts within a jurisdiction. These leasehold improvements are then pooled based on their related leased building location code. These leasehold improvement categories are then used to populate the associated cost pools in Account 2682, Leasehold Improvements.

Analysis of Equipment Inventory Records

Analysis of equipment inventory records is performed when an account cannot be disaggregated into homogeneous cost pools using other detailed information. This disaggregation assures maximum direct assignment of costs to regulated services and nonregulated activities.

The equipment inventory records are analyzed in those instances when they help to identify equipment dedicated to either regulated services or nonregulated activities.

Analysis of equipment inventory records is the basis for assigning costs to selected cost pools in the following account:

2211 2212 2220 2231 2232 2422 2423 2441

Specific Identification of Equipment in Accounting Records

Specific identification of equipment in accounting records is performed when an entire unit of unique equipment is dedicated solely to regulated or nonregulated activities and can be identified specifically as such in accounting records.

Specific identification of equipment in accounting records is the basis for assigning costs to a selected cost pool in the following account:

2220

COST POOL IDENTIFICATION (cont.)

Cost Pool Equals Account

When an entire account is considered homogeneous, it is assigned to a single cost pool. A cost pool can be directly assigned to regulated services or nonregulated activities. If the cost pool cannot be directly assigned, then it is allocated on some other basis. The specific allocation method used depends upon the account involved.

Selected cost pools in the following accounts use cost pool equals account as a basis for assigning costs to pools:

1438	3200	6426	7910
1500	3410	6431	7990
2002	3420	6511	
2111	4040		
	4130	6562	
	4370	6563	
2321	5001-5230	6565	
2351	5280	6621	
2362	6113	6790	
2421	6351	7210	
2424	6411	7220	
2426	6424	7230	
2431		7250	
		7600	

Account Balance Less Amounts Assigned to the Direct Cost Pools

After determining the directly assigned costs for an account, those costs are removed from the account balance. Then if the remainder of the account is considered homogeneous, it is assigned to a cost pool. The cost pool is then allocated according to its specifications.

A selected cost pool in the following account uses account balance less amounts assigned to the direct cost pools as a basis for assigning costs to pools:

6123

COST POOL IDENTIFICATION (cont.)

Account Balance Less Amount Assigned to Other Cost Pool(s)

This methodology is used when the residual portion of an account is assigned to a single cost pool, after excluding a homogeneous group of costs which are directly assigned or allocated. The exception group of costs will be assigned to a cost pool (or pools) and directly assigned or allocated according to its specifications, while the residual account balance will be directly assigned or allocated, according to its specifications.

A selected cost pool in the following account uses account balance less amount assigned to the cost pools as a basis for assigning costs to pools:

6124

Computer Usage

A special study is conducted at least on an annual basis to assign computer investment into several cost causative categories. Computer usage is the basis for developing the cost pools of computer investment which then can be apportioned by direct/indirect measures of causation. For minicomputers a review of the accounting records is performed to determine computer usage. For general purpose computer and information management expenses billed to the telcos by the affiliate providing support services, actual computer usage based on the services affiliate billing detail will be used to assign costs to cost pools.

2124 6124 6720

Analysis of Property Records - Nevada

The subsidiary records supporting Automated Attendant Services will be studied at least annually and each item will be assigned to the cost pool based on the nature or expected use of the property item. Account 2212 uses this basis for pooling costs.

COST POOL APPORTIONMENT METHOD

This description of the apportionment method section of the Cost Apportionment Table presents the method which a pool is apportioned between regulated and nonregulated activities. Whenever possible, cost pools are established using accounting codes to provide for the direct assignment of costs to regulated services and non regulated activities. When a cost pool cannot be directly assigned, then an allocation must be made. If direct assignments are not available, then direct measures of cost causation are used to make apportionments. Indirect measures of cost causation are used when no direct method exists. Finally, when there are no direct or indirect measures of cost causation available, either a marketing allocator or a general allocator is applied. In some instances direct assignments to regulated or nonregulated occur in an account where a direct cost pool does not exist. This is due to either reconciliation activity at year-end, or exception time reporting in an account where it is not expected. Since these occasions are infrequent and not regularly expected, direct cost pools are not established. The bases for the apportionments in the Cost Apportionment Tables are outlined below. (Please refer to Section VII for sampling apportionment methodology description.)

Assigned to Nonregulated

When a cost pool is identified as incurred exclusively for nonregulated activities, then a direct assignment to nonregulated is made.

Selected cost pools in the following accounts have a direct assignment to nonregulated activities as a basis for allocating cost.

1220	2411	6124	6441	6623
2003		6211	6512	6720
2114		6212	6532	7300
2124	2441	6220	6533	7500
	2681	6231	6534	7990
	2682	6232	6535	
	3100	6311	6540	
2212	5280	6341	6561	
2220	5300	6351	6611	
	6112	6362	6613	
2232	6114	6421	6621	
2311	6122	6422	6622	
2341	6123	6423		
2351				

COST POOL APPORTIONMENT METHOD (cont.)

Assigned to Regulated

When a cost pool is identified as incurred exclusively for regulated services, then a direct assignment to regulated is made. Selected cost pools in the following accounts have a direct assignment to regulated services as a basis for allocating costs.

1220	2421	6124	6533
1410	2422	6211	6534
1438	2423	6212	6535
1500	2424	6220	6540
2003	2426	6231	6561
2112	2431	6232	6565
2114	2441	6311	6611
2122	2681	6341	6613
2123	3100	6362	6621
2124	4040	6411	6622
2211	4130	6421	6623
2212	4300	6422	6720
2220	4370	6423	7100
2231	5001-5230	6424	7240
2232	5300	6426	7300
2311	6112	6431	7500
2321	6114	6441	7600
2341	6121	6512	7910
2362	6122	6531	
2411	6123	6532	

Peak Forecasted Annual Usage – Logical Channels - Ameritech

Common network investment that is not utilized at tariff rates is apportioned to nonregulated on the basis of peak nonregulated relative forecasted annual usage over a three year forecast period. A logical channel is a unit of measure used to forecast the usage capacity on digital electronic switching equipment. Logical channels represent a manner by which regulated services and nonregulated activities can be differentiated. The apportionment to nonregulated is made by dividing nonregulated logical channels by total logical channels in the peak year. This forecasting process is used to apportion a selected cost pool in Account 2212, Digital Electronic Switching.

COST POOL APPORTIONMENT METHOD (cont.)

Peak Forecasted Annual Usage – Kilosegments – SWBT

Common network investment that is not utilized at tariff rates is apportioned to nonregulated on the basis of peak nonregulated relative forecasted annual usage over a three year forecast period. A Kilosegment is a unit of measure used to forecast the usage capacity on a packet switch. Kilosegments represent a manner by which regulated services and nonregulated activities can be differentiated. The apportionment to nonregulated is made by dividing nonregulated kilosegments by total kilosegments in the peak year. This forecasting process is used to apportion a selected cost pool in Account 2212.

Peak Forecasted Annual Usage – COE Study – Nevada

Common network investment that is not utilized at tariff rates is apportioned to nonregulated on the basis of peak nonregulated relative forecasted annual usage over a three year forecast period. A call attempt is a unit of measure used to forecast the usage capacity on digital electronic switching equipment. Call attempts represent a manner by which regulated and nonregulated services can be differentiated. The apportionment to nonregulated is made by dividing nonregulated call attempts by total call attempts in the peak year. This forecasting process is used to apportion a selected cost pool in Account 2212, Digital Electronic Switching.

Peak Forecasted Annual Usage – Call Volumes – Ameritech

Common network investment that is not utilized at tariff rates is apportioned to nonregulated on the basis of peak nonregulated relative forecasted annual usage over a three year forecast period. Call volumes is a unit of measure used to forecast the usage capacity on analog and digital electronic switching equipment. Call volumes represent a manner by which regulated services and nonregulated activities can be differentiated. The apportionment to nonregulated is made by dividing nonregulated call volumes by total call volumes in the peak year. This forecasting process is used to apportion selected cost pools in Account 2211, Analog Electronic Switching and Account 2212, Digital Electronic Switching.

COST POOL APPORTIONMENT METHOD (cont.)

Peak Forecasted Annual Usage - 128-byte segments – Pacific

Common network investment that is not utilized at tariff rates is apportioned to nonregulated on the basis of peak nonregulated relative forecasted annual usage over a three year forecast period. 128-byte segments is a unit of measure used to forecast the usage capacity on a packet switch. 128-byte segments represent a manner by which regulated services and nonregulated activities can be differentiated. The apportionment to nonregulated is made by dividing nonregulated 128-byte segments by total 128-byte segments in the peak year. This forecasting process is used to apportion a selected cost pool in Account 2212.

Peak Forecasted Annual Usage - cpu cycles - Pacific

Common network investment that is not utilized at tariff rates is apportioned to nonregulated on the basis of peak nonregulated relative forecasted annual usage over a three year forecast period. Cpu cycles is a unit of measure used to forecast the usage capacity on an analog switch. Cpu cycles represent a manner by which regulated services and nonregulated activities can be differentiated. The apportionment to nonregulated is made by dividing nonregulated cpu cycles by total cpu cycles in the peak year. This forecasting process is used to apportion a selected cost pool in Account 2212, Digital Electronic Switching, and Account 2211, Analog Electronic Switching.

Peak Forecasted Annual Usage - cpu seconds - Pacific

Common network investment that is not utilized at tariff rates is apportioned to nonregulated on the basis of peak nonregulated relative forecasted annual usage over a three year forecast period. Cpu seconds is a unit of measure used to forecast the usage capacity on a digital switch. Cpu seconds represent a manner by which regulated services and nonregulated activities can be differentiated. The apportionment to nonregulated is made by dividing nonregulated cpu seconds by total cpu seconds in the peak year. This forecasting process is used to apportion a selected cost pool in Account 2212, Digital Electronic Switching, and Account 2211, Analog Electronic Switching.

COST POOL APPORTIONMENT METHOD (cont.)

Peak Forecasted Annual Usage – Messages - SWBT

Common network investment that is not utilized at tariff rates is apportioned to nonregulated on the basis of peak nonregulated relative forecasted annual usage over a three year forecast period. Messages is a unit of measure used to forecast the usage capacity on analog and digital electronic switching equipment. Messages represents a manner by which regulated and nonregulated services can be differentiated. The apportionment to nonregulated is made by dividing nonregulated messages by total messages in the peak year. This forecasting process is used to apportion selected cost pools in Account 2211, Analog Electronic Switching and Account 2212, Digital Electronic Switching.

Peak Forecasted Annual Usage – Call Volumes – Pacific and SWBT

Common network investment that is not utilized at tariff rates is apportioned to nonregulated on the basis of peak nonregulated relative forecasted annual usage over a three year forecast period. Call volumes is a unit of measure used to forecast the usage capacity on operator systems. Call volumes represent a manner by which regulated services and nonregulated activities can be differentiated. The apportionment to nonregulated is made by dividing nonregulated call volumes by total call volumes in the peak year. This forecasting process is used to apportion selected cost pools in Account 2220, Operator Systems.

Peak Forecasted Annual Usage – Octets – Ameritech, Pacific and SWBT

Common Network investment that is not utilized at tariff rates is apportioned to nonregulated on the basis of peak nonregulated relative forecasted annual usage over a three year forecast period. An octet is a unit of measure used to forecast the usage on a portion of the signaling system network. Octets represent a manner by which services accounted for as regulated and those accounted for as nonregulated can be differentiated. The apportionment to nonregulated is made by dividing nonregulated octets by total octets in the peak year. This forecast process is used to apportion selected cost pools in the following accounts:

2212	2231	2232	2422	2423	2441
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COST POOL APPORTIONMENT METHOD (cont.)

Relative Value of Current Month Salaries and Wages

For those accounts where relative value of salaries and wages is specified as the basis for apportioning costs between regulated services and nonregulated activities, a nonregulated percentage is developed from the current month salaries and wages in a specified group of accounts. The nonregulated percentage is developed by dividing the nonregulated salaries and wages in the specified accounts by the total salaries and wages in the accounts.

The amount apportioned to nonregulated would be calculated by multiplying the ratio of nonregulated current month salaries and wages to total current month salaries and wages in the specified accounts by the total value of the cost pool. For example, the Station Connections Cost Pool in Account 1220 is apportioned based on the relative value of Station Connections salaries and wages in Accounts 2311 through 2362 and 6311 through 6362. The nonregulated ratio is the total nonregulated salaries and wages in those accounts divided by the total salaries and wages in Accounts 2311 through 2362 and 6311 through 6362. The nonregulated ratio is then multiplied by the costs in the cost pool, and the result is apportioned to nonregulated.

When Accounts 2111 through 2690, Telephone Plant In Service (TPIS), are used as a basis of apportionment, the related accumulated depreciation and amortization **included therein and** in Accounts 3100 through **3420** and related occurrences in Accounts 2002 through 2005 are also included in the allocator. The inclusion of accumulated depreciation/ amortization and occurrences in 2002 through 2005 are determined on an accounting code by accounting code basis. For example, if the salaries and wages in Account 2212, Accounting Code 377C are the basis of apportionment, then the accumulated depreciation and 2002 through 2005 occurrences related to Accounting Code 377C are also included in the allocator.

Relative value of salaries and wages is used to apportion regulated and nonregulated costs for selected cost pools in the following accounts:

1220	6532	6621
2114	6533	6622
2681	6534	6720
6114	6535	
2682	6611	
6124	6613	

Relative Value of Current Year Salaries and Wages

The relative value of current year salaries and wages allocators are calculated the same as the relative value of current month salaries and wages allocators (see previous explanation). The terminology "current year" is used to be consistent with the Uniformity Order, any portion of current year can be used and still comply with the Order. This CAM uses current month salaries and wages.

2112 2121

COST POOL APPORTIONMENT METHOD (cont)

Current (Month) Regulated and Nonregulated Use

Many plant related expenses (Account 6112 through 6565) will incorporate the concept of forward-looking allocation because they will be indirectly allocated on the basis of plant investment which is allocated based on forecasted peak demand. Maintenance expenses, however, and other non-plant related costs, are to be allocated based on current relative regulated and nonregulated use. The amount apportioned to nonregulated would be calculated by dividing the nonregulated current (month, unless other stated) actual use of certain designated shared network investment by the total current (month, unless otherwise indicated) actual use and then applying this ratio to the total value of the cost pool

The methodology is used as a directly attributed measure of causation for selected cost pools in the following accounts.

6124	6220	6422	6720
6211	6231	6423	
6212	6232	6441	

75% of the Ratio of Regulated Trouble Counts Cleared (No Access/ No Trouble Found)

The Uniformity of Accounts established a single cost pool for no access reports and no trouble found reports. Seventy-five percent of the ratio of regulated trouble counts cleared to total trouble counts cleared is calculated. This calculation apportions the Common-No Access/No Trouble Cost Pool in the following accounts:

6311	6341	6362
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Current Regulated and Nonregulated Investment Value

This allocator is used to apportion costs which are deemed to have an indirect relationship with certain types of investment. This allocator functions in the same manner as the "Relative Investment" allocator detailed below which is based on the relationship of nonregulated investment to total investment

It differs from the "Relative Investment Value" allocator in situations when that allocator is determined by forecasted levels of investment. Many plant related expenses (Account 6112 through 6565) will incorporate the concept of forward-looking allocation because they will be indirectly allocated on the basis of plant investment which is allocated based on forecasted peak demand. Maintenance expenses, however, and other non-plant related costs, are to be allocated based on current relative regulated and nonregulated use. In those situations, the "Current Regulated and Nonregulated Investment Value" allocator uses the actual levels of investment as determined by the "Current Regulated and Nonregulated Use" allocator listed earlier instead of forecasted levels of investment.

COST POOL APPORTIONMENT METHOD (cont.)

The accounts that are allocated with usage data are those listed previously under "Current Regulated and Nonregulated Use."

Current regulated and nonregulated investment values are used to apportion selected cost pools in the following accounts

1220	2005	2681	4340	7210
2002	2121	2690	6124	7240
2003	2124	4100	6720	7500

Analysis of Use of the Rented Asset

Rented Land and Building Assets are directly attributed to regulated and nonregulated based on analyzing the purpose for which the rented asset is used. For example, rental payments incurred under the terms of the MFJ in connection with network facilities are directly attributed to regulated.

This method of attribution is used to apportion the Operating Rent Cost Pool in Account 6121, Land and Building Expense

Relative Investment Value

For those accounts where relative investment value is specified as the basis of apportioning costs between regulated services and nonregulated activities, a nonregulated percentage is developed from a specific investment component. The nonregulated percentage is developed by dividing the nonregulated investment in the specified accounts by the total investment in the accounts. Accounts allocated on relative investment provide for a direct causal apportionment.

The amount apportioned to nonregulated would be calculated by multiplying the ratio of nonregulated investment to total investment by the total value of the cost pool. For example, the **Account 6112 Common** Cost Pool is apportioned based on the relative investment value of Accounts 2112 and 2114. The nonregulated ratio is the total nonregulated investment amount in those accounts divided by the total amount of investment for Accounts 2112 and 2114. The nonregulated ratio is then multiplied by the costs in the cost pool, and the result is apportioned to nonregulated.

Relative investment value is used to apportion regulated and nonregulated costs for selected cost pools in the following accounts

	3420	6512	6563
2681	6112	6531	6720
3100		6535	7300
3200	6124	6561	7500
3410	6511	6562	

COST POOL APPORTIONMENT METHOD (cont.)

Directly Attributed to Regulated/Nonregulated Based on the Definition of the Cost Pool

The basis for assigning costs to cost pools in Account 2121 Buildings, the Operating Rent Cost Pool in Account 6121, Land and Building Expense and cost pools in Account 2681, Capital Leases and Account 2682, Leasehold Improvements, is by usage studies on the investments. When these cost pools can be identified as exclusively associated with regulated or nonregulated activities, then the total cost pool is assigned to regulated or nonregulated appropriately.

Company Current Month Salaries and Wages

Salaries and wages as determined on a state-by-state basis are used to distinguish regulated services and nonregulated activities for cost pools in the accounts listed below. This indirect attribution uses the ratio of current month regulated services and nonregulated activities previously allocated current month salaries and wages as the basis for the apportionment of selected cost pools.

An apportionment to nonregulated would be made by dividing the previously allocated nonregulated salaries and wages in the 2000, 3000, 6000, and 7000 series of accounts by the previously allocated salaries and wages in the account series.

1410	2124	4340	6623
2122	4100	6113	6720
2123	4300	6124	

Relative Value of Account(s)

For those accounts where a related account/subaccount is specified as the basis of apportioning costs between regulated services and nonregulated activities, a percentage is developed to reflect the proportion of the nonregulated cost component to the total. The percentage is then multiplied by the value of the cost pool to apportion costs to nonregulated. This methodology is used for selected cost pools in the following accounts as it provides for a direct causal apportionment between the related accounts:

2690	5300	6534	6623	7240
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COST POOL APPORTIONMENT METHOD (cont)

Service Order Analysis - Ameritech

The Service Order Analysis, performed at least annually, involves a review of service order analysis performed at least annually, involves a review of service order activity processed through AOC's mechanized billing systems. The study counts regulated and nonregulated inward service orders, divides the nonregulated inward service orders by the total inward service orders and develops the appropriate ratios to apportion the amounts in selected a cost pool in the following account:

6124 6623 6720

Directory Space - SWBT

The White Pages Advertising Cost Pool's common expenses in Account 6622, Number Services, are allocated based on the ratio of the nonregulated business advertising space in each state to the total space in the associated state's White Pages directories.

Tax Allocation-Operating Federal Income Tax, State and Local Income Taxes and Provision for Deferred Operating Income Taxes-Net

The common cost pools in Accounts 7220, 7230 and 7250 are allocated based on operating book income before income taxes less interest expense.

Directory Assistance Call Work Volume Usage – PB and SWBT

The Operator Systems Directory Assistance Cost Pool's common expenses in Account 6622, Number Services, are allocated based on the ratio of nonregulated call work volumes to total call work volumes

COST POOL APPORTIONMENT METHOD (cont.)

Analysis of Customer Bills

One month's bills are analyzed to determine the average size of bills (i.e. average pages, inches per page, lines per inch) and also the average number of common lines per bills by state

Each month, the total number of customers per state are determined from billing reports. Total bill lines are determined by multiplying the number of customers billed by the average size of the bill. The total number of occurrences of billed nonregulated services are obtained from the billing system. It is known how many lines per nonregulated service appear on a bill. By multiplying the nonregulated services billed in a month by state by their respective number of lines, the total number of nonregulated billed lines are calculated each month.

The monthly analysis prepared previously has determined the average number of common lines per bill month per state. By knowing the bills total number of bill lines each month, then subtracting out the common lines and the nonregulated lines, the regulated lines are calculated.

2124	6124	6623	6720
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Relative Value of Cost Pool(s)

The relative value of cost pool(s) is used as a method of apportionment when one cost pool is allocated based on others. An assignment to nonregulated is made by developing the percentage of nonregulated costs in the specified cost pools to total costs in the specified cost pools and applying it to the value of the cost pool to be apportioned.

Selected cost pools in the following accounts are apportioned based on the relative value of cost pools:

2111		6564	6720
2681	6121	6613	
2682	6124	6623	

COST POOL APPORTIONMENT METHOD (cont.)

Current Month Company Salaries and Wages Excluding Specified Salaries and Wages

Salaries and wages excluding specified salaries and wages as determined on a state-by-state basis are used to distinguish regulated services and nonregulated activities for cost pools in the accounts listed below. This indirect attribution uses the ratio of regulated services and nonregulated activities previously allocated salaries and wages less specified salaries and wages as the basis for the apportionment of selected cost pools

An apportionment to nonregulated would be made by dividing the previously allocated nonregulated current month salaries and wages in the 2000, 3000, 6000, and 7000 series of accounts less the specified current month salaries and wages identified in the Cost Pool Matrix by the related previously allocated current month salaries and wages.

Cost Pools in the following accounts use this method of apportionment to allocate nonregulated costs

2121	2124	6122	6720
	2681	6123	
	2682	6124	

Trouble Reports

The Subscriber Line Testing Cost Pool in Account 6533, Testing Expense is allocated between regulated services and nonregulated activities based on trouble reports. Trouble reports are identified as either regulated or nonregulated. This ratio of nonregulated trouble reports to total trouble reports is multiplied by expenses in the cost pool and the resulting amount is apportioned to nonregulated

COST POOL APPORTIONMENT METHOD (cont.)

Marketing Allocator

The marketing allocator is used to apportion cost pools of marketing expenses for which no other cost causative cost apportionment method exists. The marketing allocator is based on directly assigned and attributed marketing costs obtained from selected cost pools containing marketing costs in accounts 6611, 6613, 6623 and 6720, as applicable (Note: Costs allocated by the general allocator or the marketing allocator cannot be used to create the marketing allocator)

The marketing allocator is used to apportion marketing expenses in cost pools in the following accounts

6124	6613	6720
6611		

General Allocator

The general allocator apportions cost pools for which no other cost causative cost apportionment method exists

Accounts which have selected cost pools apportioned using the general allocator include

2124		7100
4300	6720	7240
6124	6790	7300

COST POOL APPORTIONMENT METHOD (cont)

Not Applicable (Uniformity – Cost Pool not in use)

Direct cost pools exist in some accounts solely as place holders for the cost pools required per Uniformity. For example, the directly assigned pools in Account 2121, Buildings, are not in use by the Companies. These are accordingly marked "Not Applicable (Uniformity – Cost Pool not in use) "

2111	2121	6311	
112	2311	6341	

USOA Part 32 Accounts	Cost Pool Name	Cost Pool Identification	Cost Pool Apportionment Method	Comments	P	N	S	A
1220 Inventories	Direct Cost Pool	Based on description of accounting codes	Directly assigned to regulated	Ameritech rarely uses this pool				✓
	Direct Cost Pool	Based on description of accounting codes	Directly assigned to nonregulated		✓	✓	✓	✓
	Central Office Cost Pool	Based on description of accounting codes	Indirectly attributed based on current regulated and nonregulated investment value of central office equipment in Accounts 2211 through 2232		✓	✓	✓	✓
	Cable and Wire Facilities Cost Pool	Based on description of accounting codes	Indirectly attributed based on relative value of Cable and Wire Facilities current month salaries and wages in Accounts 2411 through 2441 and 6411 through 6441		✓	✓	✓	✓
	Other Inventories Cost Pool	Based on description of accounting codes	Indirectly attributed based on current regulated and nonregulated investment value of Account 2001, Telecommunications Plant In Service		✓	✓	✓	✓
1410 Other Noncurrent Assets	Direct Cost Pool	Based on description of accounting codes	Directly assigned to regulated	Includes prior Accounts *1401 *1402, *1407, *1408 and 1410 None of the * items are subject to separations PB and NB rarely use this cost pool	✓	✓	✓	✓
	Other Noncurrent Assets Cost Pool	Based on description of accounting codes	Indirectly attributed based on company current month salaries and wages	Includes prior Account 1410	✓	✓	✓	✓
1438 Deferred Maintenance, Retirements and Other Deferred Charges	Direct Cost Pool	Cost Pool equals account	Directly assigned to regulated	Amounts in this account will be excluded from ratemaking in the Separations process, thus allocation between regulated and nonregulated is not necessary Includes prior Accounts 1438 and 1439	✓	✓	✓	✓

USOA Part 32 Accounts	Cost Pool Name	Cost Pool Identification	Cost Pool Apportionment Method	Comments	P	N	S	A
1500 Other Jurisdictional Assets - Net	Direct Cost Pool	Cost Pool equals account	Directly assigned to regulated	Amounts in this account will be excluded from ratemaking in the Separations process, thus allocation between regulated and nonregulated is not necessary	✓	✓	✓	✓
2002 Property Held For Future Telecommunications Use	Common Cost Pool	Cost Pool equals account	Indirectly attributed based on current regulated and nonregulated investment value of Account 2001, Telecommunications Plant In Service		✓	✓		✓
2003 Telecommunications Plant Under Construction	Direct Cost Pool	Based on description of accounting codes	Directly assigned to regulated		✓	✓	✓	✓
	Direct Cost Pool	Based on description of accounting codes	Directly assigned to nonregulated	Nevada Bell rarely uses this cost pool	✓	✓	✓	✓
	Common Cost Pool	Based on description of accounting codes	Indirectly attributed based on current regulated and nonregulated investment value of Accounts 2211 through 2232 and 2411 through 2441		✓	✓	✓	✓
2005 Telecommunications Plant Adjustment	Not Applicable	Not Applicable	Not Applicable	The Companies do not have any Telecommunications Plant Adjustment investment. Includes prior Accounts 2005 and 3600				

<u>USOA Part 32 Accounts</u>	<u>Cost Pool Name</u>	<u>Cost Pool Identification</u>	<u>Cost Pool Apportionment Method</u>	<u>Comments</u>	<u>P</u>	<u>N</u>	<u>S</u>	<u>A</u>
2111 Land	Directly Assigned Regulated	Not applicable	Directly Assigned to Regulated	Ameritech (AOCs), Nevada Bell (NB), Pacific Bell (PB) and Southwestern Bell (SWBT) (the Companies) do not have land which can be directly assigned Not applicable (Uniformity - Cost Pool not in use)				
	Directly Assigned Nonregulated	Not applicable	Directly Assigned to Nonregulated	The Companies do not have land which can be directly assigned Not applicable (Uniformity - Cost Pool not in use)				
	Common Cost Pool	Cost Pool equals account	Indirectly attributed based on the relative value of the common Buildings Cost Pools in Account 2121, Buildings		✓	✓	✓	✓
2112 Motor Vehicles	Directly Assigned Regulated	Based on description of accounting codes and analysis of motor vehicle records	Directly Assigned Regulated	NB rarely uses this cost pool	✓	✓	✓	
	Directly Assigned Nonregulated	Not applicable	Directly Assigned Nonregulated	The Companies do not have Motor Vehicles which can be directly assigned to nonregulated Not applicable (Uniformity - Cost Pool not in use)				
	Central Office Cost Pool	Analysis of motor vehicle records	Indirectly attributed based on relative value of Central Office current year salaries and wages in Accounts 2210 through 2232 and Accounts 6210 through 6232		✓	✓	✓	✓
	Distribution Services - Installation and Maintenance Sub-pool	Analysis of motor vehicle records	Indirectly attributed based on relative value of Distribution Services current year salaries and wages in Accounts 2310 through 2441, and 6310 through 6441		✓	✓	✓	✓

USOA Part 32 Accounts	Cost Pool Name	Cost Pool Identification	Cost Pool Apportionment Method	Comments	P	N	S	A
2112 Motor Vehicles (Cont)	Distribution Services - Construction Sub-pool	Analysis of motor vehicle records	Indirectly attributed based on relative value of Cable and Wire Facilities current year salaries and wages in Accounts 2410 through 2441, and 6410 through 6441				✓	
	Network Operations Cost Pool	Analysis of motor vehicle records	Indirectly attributed based on relative value of Network Operations current year salaries and wages in Accounts 6113 through 6124, and 6510 through 6535		✓	✓	✓	✓
	Customer Operations Cost Pool	Analysis of motor vehicle records	Indirectly attributed based on relative value of Customer Services current year salaries and wages in Accounts 6610 through 6623		✓	✓	✓	✓
	Corporate Operations Cost Pool	Analysis of motor vehicle records	Indirectly attributed based on relative value of Corporate Operations current year salaries and wages in Account 6720		✓	✓	✓	✓
	Motor Pool	Analysis of motor vehicle records	Indirectly attributed based on relative value of the current year salaries and wages of those employees served by the motor pools	NB rarely uses this cost pool	✓	✓	✓	
2113 Aircraft	Not applicable	Not applicable	Not applicable	The Companies do not have any Aircraft investment				
2114 Tools and Other Work Equipment	Direct Cost Pool	Based on description of accounting codes	Directly assigned to regulated		✓	✓		
	Direct Cost Pool	Based on description of accounting codes	Directly assigned to nonregulated				✓	